APRIL 11, 2022

Via email to: rule-comments@sec.gov

Vanessa Countryman

Secretary

Securities and Exchange Commission

100 F Street, NE Washington, DC 20549-1090

RE: File No. S7-22-21 – Request for comment on Release No. IC-34441, Money Market Fund Reforms

Dear Ms. Countryman:

On behalf of Allspring Global Investments ("Allspring"), we appreciate the opportunity to respond to the request by the U.S. Securities and Exchange Commission ("Commission" or "SEC") for comments on the SEC's proposed rules regarding money market fund reform measures.[1]

Allspring is the sponsor of the Allspring Funds, a fund family that offers a diverse set of government, prime and tax-exempt money market funds across multiple distribution platforms that include both retail and institutional investors ("Allspring Money Market Funds"). Assets under management in the Allspring Money Market Funds totaled approximately $177 billion as of March 31, 2022. As the 10th largest sponsor of money market funds in the United States, Allspring welcomes this opportunity to provide the Commission with its thoughts on the Proposing Release.[2]

I. Introduction

At the outset, we note that prime and tax-exempt money market funds have functioned largely as intended following the reforms of 2010 and 2014 that were implemented in response to the 2008 global financial crisis; specifically, the floating net asset value ("NAV") requirement for institutional prime and institutional tax-exempt money market funds provided the price discovery that the reforms were intended

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[1] *Money Market Fund Reforms,* 87 FR 7248 (Feb. 8, 2022), *available at* https://www.govinfo.gov/content/pkg/FR-2022-02-08/pdf/2021-27532.pdf ("Proposing Release").

[2] On November 1, 2021, the sale of Wells Fargo Asset Management from Wells Fargo & Company to certain private funds of GTCR LLC and Reverence Capital Partners, L.P. closed, forming Allspring Global Investments, a privately held asset management firm with $575 billion in assets under management as of December 31, 2021. Included in Allspring Global Investments are Allspring Funds Management, LLC, Allspring Global Investments, LLC and Allspring Funds Distributor, LLC, which serve as the investment manager, sub-adviser and principal underwriter, respectively, to each of the Allspring Money Market Funds.

to produce, while ensuring shareholders bore the cost of their liquidity needs. Prime and tax-exempt money market funds experienced stresses in March of 2020 as market disruptions caused by the COVID-19 pandemic led to significant outflows, particularly from institutional prime money market funds. As such funds across the industry experienced heavy redemptions, their weekly liquid asset ("WLA") levels declined, and some funds' WLA levels approached (and one reportedly fell below) the 30% minimum threshold established by Rule 2a-7, which led to more investor redemptions as institutional investors feared that the boards of money market funds would impose liquidity fees and/or redemption gates.[3] In addition, due to stresses in the short-term funding markets, prime money market funds faced challenges selling securities, notably commercial paper and certificates of deposit, to accommodate investors' redemptions, which exacerbated the problem as WLA levels further declined. Shortly thereafter, the U.S. Board of Governors of the Federal Reserve System authorized a money market fund liquidity facility, which provided non-recourse loans to U.S. depository institutions and bank holding companies to finance their purchases of specified eligible assets from money market funds under certain conditions. Following the announcement of this liquidity facility, redemptions from prime and tax-exempt money market funds subsided and short-term funding market conditions improved.

The events of March 2020 thus demonstrated that despite the substantial strengthening of money market funds that occurred following the SEC's reform efforts in 2010 and 2014, money market funds are still subject to vulnerabilities in certain circumstances, and we commend the Commission for recognizing the need to propose additional changes. Properly functioning short-term markets are important for economic growth as they provide a means for companies, municipalities, and the Federal government to finance short term needs. Money market funds are an important tool in providing that financing, and we support further action by the Commission to strengthen them. However, regulatory reform should be undertaken with a view to ensuring money market funds can continue to operate in an effective manner, and additional Rule 2a-7 reforms should not be so onerous as to threaten the long-term viability of money market funds or impose unnecessary or disproportionate operating costs on money market fund sponsors or other market participants.

Viewing the Commission's Proposing Release through that lens, we applaud the Commission's proposal to eliminate the liquidity fee and redemption gate provisions from Rule 2a-7. We believe that this step alone would be sufficient to prevent the sorts of problems experienced by money market funds in March 2020, should similar market conditions reoccur in the future. Given this fact, we do not believe that the Commission's proposed increase of the daily liquid asset and weekly liquid asset minimum requirements to 25% and 50%, respectively, are necessary. We do think that liquidity buffers higher than the currently mandated levels may be helpful in the event of widespread rapid redemption activity, and

[3] *See* Investment Company Institute, "Experiences of US Money Market Funds during the COVID-19 Crisis", *Report of the COVID-19 Market Impact Working Group* (November 2020) at 30-34, *available at* https://www.ici.org/pdf/20_rpt_covid3.pdf ("ICI Report"); Proposing Release at 7253.

therefore suggest that the Commission instead adopt required daily and weekly liquid asset minimums of 20% and 40%, respectively.

For reasons more fully explained below, we oppose the Commission's proposed swing pricing requirement for institutional prime and institutional tax-exempt money market funds. We do not believe that the imposition of such a mechanism is necessary to prevent runs on money market funds, nor do we think that such a mechanism is capable of doing so. While we acknowledge that the imposition of swing pricing may pass some costs of redemption onto redeeming investors during periods of market stress, we note that redeeming investors already experience these costs at least in part due to the fluctuating NAV of the institutional prime and institutional tax-exempt money market funds that would be required to adopt swing pricing. And during normal periods, we believe that swing pricing would have no impact on redeeming investors at all. Given the costs and operational difficulties associated with implementing and continuously imposing swing pricing, even during normal periods when it would have no effect, as well as the potential unintended consequences we discuss below, we think the downsides of swing pricing far exceed the limited benefits.

In addition, for the reasons discussed more fully below, we oppose the Commission's proposed amendments to Rule 2a-7 to prohibit a stable NAV money market fund from reducing "the number of its shares outstanding to seek to maintain a stable net asset value per share or stable price per share"[4]. While we acknowledge that the concept of share cancellation may be somewhat new to certain types of investors, this obstacle can be overcome with clear disclosure, and we believe that such concerns are not a sufficient reason for prohibiting what, in our view, is the most efficient method for stable NAV money market funds to deal with the unlikely scenario of negative interest rates. In addition, we oppose the Commission's proposed requirement that government and retail funds confirm that intermediaries transacting in fund shares have the capacity to process transactions at prices that do not correspond to a stable NAV if the funds were to convert to a floating NAV.

II. SEC's Proposals

a. Amendments to Remove Liquidity Fee and Redemption Gate Provisions

While the runs on money market funds experienced during the 2008 global financial crisis were precipitated by credit events, March 2020 demonstrated that run-like behavior may also be caused by liquidity events unrelated to the short-term credit markets themselves. That month, investors, particularly institutional investors, became concerned that redemption gates could be imposed and that they would be subsequently unable to access their money for a period of time. These fears incented a first-mover advantage, causing such investors to redeem before gates could be imposed.[5] In this sense, the 2014 reforms, which were in large part enacted in order to reduce the risk of runs, may have simply swapped one

[4] Proposing Release at 7335.
[5] *See* ICI Report at 30-31.

kind of trigger event for another, as a fund's WLA level replaced a fund's shadow NAV as the trigger to cause institutional investors to redeem.[6]

As a result, the adoption of the fees and gates mechanism by the SEC as part of the 2014 reforms undermined a key element of the 2010 reforms that was intended to make money market funds more resilient; namely the requirement for money market funds to hold 30% of their assets in securities maturing or puttable within five business days (i.e., WLA). In establishing the 30% minimum, the Commission stated its intent to provide money market funds with "a sufficient degree of liquidity necessary to meet reasonably foreseeable redemption requests and reduce the likelihood that a fund will have to meet redemptions by selling portfolio securities into a declining market."[7] Indeed, this new liquidity threshold was likely sufficient to satisfy the level of redemption demands during the events of March 2020. According to data from Form N-MFP, for the two-week period ended March 20, 2020, outflows from institutional prime funds totaled $90 billion, or approximately 27% of the assets of such funds.[8] Back-testing of our own March 2020 experience shows that the Allspring Money Market Funds[9] could have met all redemptions solely through maturing securities and the Funds' available WLA. However, we instead sold longer-dated securities to avoid depleting WLA below 30% and giving rise to the potential for the imposition of a redemption gate. Given industry averages, we believe that this was likely the case for most other money market funds as well. Despite having sufficient liquidity, money market funds were hesitant to use it due to fears that even approaching the 30% WLA level would lead to additional redemption requests and that falling below the 30% WLA level would potentially trigger a redemption gate. Instead, money market funds sold longer-dated securities in favor of securities that qualified as weekly liquid assets.[10]

Recognizing the issue caused by fees and gates, the President's Working Group included in its list of potential money market reforms delinking the permissible imposition of fees and gates from the WLA minimum threshold.[11] When the SEC requested feedback from the public on the PWG Report[12], we supported the delinking proposal while also noting that fees and gates "can serve as an important tool that should be preserved."[13] However, we also noted the possibility "that a subset of institutional investors may still regard the 30% WLA level as a type of "floor" that incents them to redeem when a fund's WLA approaches this level out of fear that the fund's board may decide to impose fees or gates."[14] If the SEC had

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[6] Comment Letter of the Investment Company Institute (Apr. 12, 2021) at 11, *available at* https://www.sec.gov/comments/s7-01-21/s70121-8662926-235321.pdf ("ICI Comment Letter").
[7] Money Market Fund Reform, Investment Company Act Release No. 29132 (February 23, 2010) at 49-50.
[8] President's Working Group on Financial Markets: Report on Recent Events and Potential Reform Options for Money Market Funds (December 2020) at 14 n.21, *available at* https://home.treasury.gov/system/files/136/PWG-MMF-report-final-Dec-2020.pdf ("PWG Report").
[9] In March 2020, the Allspring Money Market Funds were known as the Wells Fargo Money Market Funds.
[10] ICI Comment Letter at 51.
[11] PWG Report at 22.
[12] Request for Comment on Potential Money Market Fund Reform Measures in President's Working Group Report, Investment Company Act Release No. 34188 (February 4, 2021).
[13] Comment Letter of Wells Fargo Funds Management, LLC (April 12, 2021) at 4.
[14] *Id.*

adopted fees and gates initially in the 2014 reforms without linking them to the 30% WLA threshold, we think that fees and gates would remain a viable tool for preventing runs. However, we have come to agree with the Commission's view set forth in the Proposing Release that "the discretionary ability of the board to impose gates could add uncertainty in times of market stress."[15] In the absence of a specified trigger, we think many fund boards would be likely to regard the 30% WLA level as a "de facto" trigger and that, as we previously stated, many institutional investors are likely to suspect that fund boards will regard it as such and act accordingly in their redemption behavior. We therefore strongly support the Commission's proposal to remove fees and gates from Rule 2a-7 and commend the SEC for being flexible enough to consider doing away with a reform that they had so recently adopted when evidence arose that it was not working as intended.

As the Commission noted in the Proposing Release, money market funds would still have the ability to impose a redemption gate if certain conditions are met in order to facilitate an orderly liquidation by using Rule 22e-3.[16] One such condition for an institutional prime or institutional tax-exempt money market fund is that such fund's WLA at the end of a business day must be less than 10% of its total assets. Should the SEC ultimately remove redemption gates from Rule 2a-7, we recommend the Commission amend Rule 22e-3 to remove the specific WLA threshold in order to provide money market fund boards with greater flexibility, as there may be situations in which a board approves the liquidation of a fund that has WLA of greater than 10% of its total assets and finds that it would be in shareholders' best interests to suspend redemptions ahead of the liquidation.

b. Amendments to Portfolio Liquidity Requirements

As we mentioned previously, we believe that our own institutional prime and institutional tax-exempt money market funds would have had sufficient WLA assets to meet redemption requests during March 2020 and that it is likely that most other money market funds would have as well. Indeed, since the adoption of the 30% WLA requirement, money market funds have on average held WLA well above this threshold. According to the ICI, from 2010 to January 2021, institutional prime money market funds on average held 44 percent of their assets in WLA, and retail prime money market funds held on average 41 percent of their assets in WLA.[17] We therefore believe that increasing the required daily liquid asset and weekly liquid asset minimums to 25% and 50%, respectively, is not necessary. However, we understand the SEC's position that the fee and gate provisions may have incentivized money market funds to maintain WLA levels above the threshold, and that the removal of the fee and gate provisions could lead to reduced fund liquidity levels by eliminating such incentives.[18] Further, we believe that certain money market fund managers may be incentivized to maintain their daily and weekly liquid asset levels as close to the minimums as possible in search of higher yield, and as more time passes without a significant market event,

[15] Proposing Release at 7258.
[16] *Id.* at 7257.
[17] ICI Comment Letter at 16.
[18] Proposing Release at 7272.

more and more fund managers may be tempted to follow suit. And while the current minimum thresholds were sufficient for the vast majority of money market funds to meet redemption activity during March 2020, there is no guarantee that these levels would be sufficient during the next significant market event, whatever and whenever that may be. Out of an abundance of caution, we therefore recommend that the Commission increase the required daily and weekly liquid asset minimums to 20% and 40%, respectively, should the SEC ultimately decide to remove the fee and gate provisions from Rule 2a-7. While increasing the minimums may deprive money market fund managers of some flexibility, we believe that such liquidity levels would increase the resilience of money market funds and make them more capable of weathering future significant market events.

c. Proposed Swing Pricing Requirement

The SEC proposes to amend Rule 2a-7 to require swing pricing for institutional prime and institutional tax-exempt money market funds. Operationally, these funds would be required to adjust their NAV downward when experiencing net outflows, with a larger reduction occurring through the application of an additional market impact cost when net redemptions exceed 4% (divided by the number of pricing periods a fund has during a business day). In support of the proposal, the SEC argues that swing pricing would ensure that redeeming shareholders are the shareholders that bear the liquidity, or transaction, costs associated with their redemptions (and thus reduce dilution for remaining shareholders), and would remove any first-mover advantage resulting from dilution, therefore helping to prevent runs. We believe that the assumptions underlying the proposal are incorrect and therefore that swing pricing would not accomplish the SEC's objectives. Given the costs and operational complexities that would be borne by money market funds to implement swing pricing, as well as the likely elimination of money market fund features valued by investors and other potential negative consequences we outline below, we strongly oppose this proposal.

i. Swing Pricing is Not Necessary to Ensure that Redeeming Shareholders Bear the Cost of Their Liquidity

In general, redeeming shareholders do not impair liquidity for, or impose dilution costs on, a money market fund's remaining shareholders. The Commission's belief that they do rests on three faulty assumptions: first, that liquidity is static; second, that shareholder redemptions must be funded through security sales; and third, and perhaps most important, that redeeming shareholders do not already bear the cost of their liquidity.

With respect to the first assumption, liquidity is not a static pool of assets; it is constantly being replenished by investor subscriptions and, even in the absence of subscriptions, by portfolio securities rolling into a money market fund's daily and weekly liquid asset buckets as they approach maturity. The concept of dilution rests on the assumption that future liquidity for remaining shareholders can only be met through selling "less liquid securities."[19] This is not necessarily true. For example, using back-testing, we determined that for the two-week period ended March 20, 2020, the Allspring Heritage Money Market Fund[20] would have been able to meet all redemption requests solely through daily and weekly liquid assets as well as maturing securities, had we felt we could tap into that pool without triggering the potential for the imposition of a liquidity fee or redemption gate.[21]

With respect to the second assumption, in our experience, and indeed, throughout the money market fund industry, most redemptions are funded through daily and weekly liquid assets; as the SEC has noted numerous times, secondary market trading in money market securities is relatively rare.[22] In addition to managing liquidity through existing liquid assets, money market funds also manage liquidity through "know your customer" practices. For example, some money market funds, ours included, track shareholder balances and transactions, and are able to analyze this data in order to help determine the appropriate level of liquidity to carry (taking into account regulatory requirements) in addition to using this information to immunize cash flows through maturing securities. Consequently, we rarely have to sell assets to meet redemptions. In fact, in the six-year period prior to March 2020, the Allspring Heritage Money Market Fund never sold a security to meet redemptions. As noted above, this streak was broken during the market dislocations of March 2020 solely to prevent the fund's WLA level from falling below 30%.

With respect to the third assumption, the SEC has divided the costs of liquidity into two types: immediate transaction costs and dilution costs. Immediate transaction costs are those associated with selling a security, which the SEC has identified as "spread costs and other transaction costs (i.e., brokerage commissions, custody fees, and any other charges, fees, and taxes associated with portfolio security sales) . . ."[23] However, we do not believe that money market funds incur any transaction costs associated with either purchasing or selling securities. For example, the Allspring Money Market Funds pay no brokerage commissions, or any other fees or taxes associated with trading, and custody costs are based on overall asset levels, not on transactions (therefore in dollar terms, custody costs would actually decline as shareholders redeem). In addition, since our funds' intra-day mark-to-market pricing is on the bid side of the market, the funds are not subject to additional spread costs.[24] While the SEC has recognized that it does "not believe that a swing pricing requirement would impose significant additional price volatility under

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[19] *Id*. at 7262.
[20] The fund was named the Wells Fargo Heritage Money Market Fund at the time.
[21] For purposes of this calculation, we used the Heritage Money Market Fund's actual portfolio and redemption activity during the two-week period and backed out the security sales we made to ensure our WLA remained well above 30%,
[22] *See* Proposing Release at 7252; Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 30551 (June 5, 2013) at 15.
[23] Proposing Release at 7262.
[24] To the extent that certain money market funds are not already pricing on the bid side, we think the SEC should consider amending Rule 2a-7 to require bid-side pricing instead of implementing swing pricing.

normal market conditions,"[25] we believe it is clear that for net redemptions of less than 4%, there would be no adjustment to a fund's NAV for redeeming shareholders, even if there were significant market volatility.

The SEC has defined the second part of liquidity costs as dilution costs – the costs of selling less liquid securities (presumably either at the time of redemption or in the future as a consequence of reduced liquidity), and the vulnerability of a money market fund to future redemptions caused by a depletion of liquidity.[26] We disagree that dilution costs accrue to a money market fund as a result of shareholder redemptions. First, as previously noted, liquidity is generally not met through security sales. It can be easy to assume that longer-dated securities are less liquid than those with shorter maturities; however, that is not necessarily true as illustrated by our previous example of the Allspring Heritage Money Market Fund. During the market dislocations of March 2020, the securities that we sold to maintain our weekly liquid asset bucket above 30% had remaining days-to-maturity ranging from 12 to 329 days.

Second, while studies have demonstrated that money market funds with lower levels of liquidity experienced accelerated outflows in comparison to funds with higher levels of liquidity during March 2020[27], it has not been demonstrated that lower liquidity levels alone would have triggered such redemption activity in the absence of the possibility of fees and gates being imposed. In fact, between 2010 and October 2016, during which period prime money market funds were required to maintain daily and weekly liquid assets at 10% and 30%, respectively, but before the 30% WLA level was linked to the potential imposition of fees and gates, funds regularly dipped below the 30% threshold without any adverse consequences, such as triggering a run due to lower liquidity levels.[28] While it may be natural to assume that the absolute level of liquidity was the catalyst for the increase in shareholder redemptions, the investor behavior demonstrated above would appear to indicate that the risk of being cut off from liquidity was the actual catalyst, as shareholders redeemed at a faster pace the closer the potential imposition of fees and gates came to being realized.

Absent any transaction or dilution costs, we therefore contend that redeeming shareholders in institutional prime and institutional tax-exempt money markets funds already bear the costs of their liquidity through the funds' floating NAVs. This was actually one of the benefits that the SEC cited in adopting floating NAVs for institutional prime and institutional tax-exempt money market funds as part of its 2014 reforms, noting that "the requirement is designed to… reduce the chance of unfair investor dilution… " and that such feature "balances concerns about the risks of heavy redemptions from these funds in times of stress and the resulting negative impacts on short-term funding markets and potential dilution of investor shares, with the desire to preserve, as much as possible, the benefits of money market funds for

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[25] *Id*. at 7265.
[26] *Id*. at 7314.
[27] Lei Li, Yi Li, Marco Macchiavelli, Xing (Alex) Zhou, *Liquidity Restrictions, Runs, and Central Bank Interventions: Evidence from Money Market Funds*, The Review of Financial Studies, Volume 34, Issue 11, November 2021, Pages 5402–5437; ICI Report at 30-31.
[28] *See* ICI 2021 letter at 13.

investors."[29] Floating NAVs have worked as intended in practice. As previously noted, during the events of March 2020, absent the possibility of fees and gates, we would have been able to meet redemptions in the Allspring Heritage Money Market Fund through its daily and weekly liquid assets, and thus the fund's floating NAV fully reflected all costs associated with liquidity. Indeed, even when the fund sold securities with longer maturities to meet redemptions, the fund's floating NAV reflected the costs associated with liquidity. During the period from March 10-19, 2020, the fund's NAV declined seventeen basis points over the nine trading days; during those nine days the fund experienced thirty-six intra-day pricing intervals, of which one-third reflected NAV mark-to-market declines ranging from one to three basis points.

ii. Swing Pricing Will Not Prevent Runs

We disagree with the SEC's stated belief that swing pricing will prevent runs. As previously discussed, the elevated pandemic-related shareholder redemptions were prompted by the possibility of fees and gates being implemented if liquidity levels fell below regulatory minimums, and there is no evidence that the elevated level of redemptions would have occurred absent the possibility of fees and gates. The rationale that a lower NAV per share will somehow dissuade investors from redeeming shares runs contrary to experience during the March 2020 event. In the Proposing Release, the SEC acknowledges that its own analysis as well as an external study found no correlation between market prices and institutional prime fund redemptions.[30] Our own experience shows that redemptions were unrelated to floating NAV decreases, and that lower NAVs did not result in an acceleration of redemptions; indeed, a shareholder had no way of knowing that an intra-day NAV price associated with a redemption period would change from the previous price. This bears a striking resemblance to the mechanics under a swing pricing regime, whereby due to a lack of transparency, a shareholder would have no way of knowing whether their redemption would be subject to swing pricing. There is simply no evidence that a swing pricing regime would meaningfully alter investor behavior.

iii. Swing Pricing Would Unfairly Penalize Certain Investors

Should the Commission ultimately decide to require institutional prime and institutional tax-exempt money market funds to incorporate swing pricing, we believe it would unfairly penalize certain investors. The swing pricing proposal rests on the assumption that shareholders only purchase a money market fund in order to hold it for an indefinite period of time and any redemption would be permanent. In reality, many investors actively use money market funds, particularly those funds that strike a NAV multiple times a day and thus allow for intra-day redemptions, as cash management vehicles. For example, some investors build balances from cash flows in order to make periodic paydowns; in these types of cases, balances can be seen gradually building throughout a period, such as a month before the payment is made,

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[29] Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166 (July 23, 2014) at 137-138. As we discuss below, swing pricing would eliminate one benefit of money market funds for investors, namely, the ability to redeem intra-day.
[30] Proposing Release at 7255 n.48.

at which point the cycle begins anew. More commonly, investors may buy and sell fund shares frequently, sometimes as frequently as daily, freeing up cash to use for general purposes, and reinvesting the balance at the end of the day. These types of investors are not redeeming opportunistically and leaving remaining shareholders with unrealized losses; they are both current and future shareholders, and this type of scheme unfairly penalizes them for simply taking advantage of money market fund characteristics. We note that the SEC recognized the importance of these characteristics to money market fund investors when it proposed Rule 22c-2 and excluded money market funds from its redemption fee provisions due to the notion that money market funds are designed to facilitate frequent short-term trading.[31]

Worse still, in the case of investors who redeem and then later reinvest on the same day, such shareholders would be penalized when there is no conceivable argument to be made that they have reduced or impaired a fund's liquidity at all. The SEC has proposed a 4% redemption level (divided by the number of pricing periods a fund has during a business day) for the market impact threshold because during a nearly five-year period, money market funds had net redemptions of 4% or more only 5% of the time.[32] These data reflect calculations that were made as of the close of business, and thus arguably the 4% threshold is logical for money market funds that strike a NAV once a day. However, with respect to funds that strike a NAV multiple times a day, not all net redemptions during the day result in a net redemption at the end of the day, as illustrated by the example of large investors who redeem shares in the morning to free up cash for the day and reinvest in the fund in the afternoon. In these cases, liquidity is not impaired, and yet redeeming shareholders would be required to pay a swing factor.

iv. Swing Pricing Would Likely Result in the Elimination of Features Valued by Money Market Fund Investors and Other Negative Consequences

As discussed above, many money market fund sponsors currently offer multiple NAV strike times throughout the day in order to allow shareholders to access their funds throughout the day. We believe the costs and complexity of swing pricing will result in most such fund sponsors reducing the number of NAV strikes, most likely to one at the end of the day. This will impair liquidity for investors and remove much of the cash-management characteristics that investors find so beneficial with respect to the funds. This, in turn, may cause shareholders to move out of institutional prime and institutional tax-exempt money market funds and into either government money market funds or bank deposits to recapture those benefits.

Further, the operational complexity and costs associated with implementing swing pricing may force smaller money market fund sponsors out of the market; indeed, these costs may even cause some larger fund sponsors to exit the business because they will be unable or unwilling to accommodate the requirements. In addition, with its complete and intentional lack of transparency, swing pricing would make it difficult, if not impossible, for investors to determine if swing pricing is in effect, and what the impact will

[31] *See* Mandatory Redemption Fees for Redeemable Fund Securities, Investment Company Act Release No. 26375A (March 5, 2004).
[32] Proposing Release at 7263.

be on their redemption. As the SEC noted, one possible benefit of swing pricing may be that it slows redemptions if investors know their balances and are able to space them out in an effort to avoid having a swing price implemented. However, that is only a benefit if the investor can reasonably estimate when a swing price will be in effect, which it is unable to do under the proposed scheme given that implementation of swing pricing is dependent on behavior from other shareholders. This may result in investors gravitating toward larger institutional prime funds, where their ownership share of assets will be lower, or towards government funds where swing pricing will not be an issue, in either case also potentially leading to some money market fund sponsors exiting the industry. Further industry consolidation would lead to greater market concentration in larger institutional prime money market funds, which in turn would reduce market diversification, decrease the demand for short-term instruments, and increase systemic risk.

d. Amendments Related to Potential Negative Interest Rates

i. Share Cancellation

As the SEC notes in the Proposing Release, twice in the last fifteen years, significant market events have led the U.S. Federal Reserve (the "Fed") to establish a target federal funds rate of 0 to 0.25%; the first being the financial crisis of 2008 and the second being the market disruptions caused by the COVID-19 pandemic.[33] Despite these recent periods of very low interest rates, the Fed has never adopted a policy of negative interest rates[34], and as the Commission notes, some policymakers at the Fed have on occasion expressed the view that "negative interest rates do not appear to be an attractive monetary policy tool in the United States."[35] Indeed, we think that it is highly unlikely that a government or retail money market fund will ever be forced to take action to deal with imminently "breaking the buck" as a result of negative interest rates. Nonetheless, we, like many in the industry, expended significant time and resources in 2020 to plan for the possibility of negative interest rates, including examining various methods of share cancellation. One solution that we worked towards involved the potential use of a reverse distribution mechanism ("RDM"), whereby a fund would decrease the amount of shares outstanding daily in order to offset the impact of negative net income on the fund's NAV. These negative distributions would be allocated to shareholders on a pro rata basis and would allow the fund to maintain a stable NAV of $1.00 per share. We believe that the use of share cancellation methods such as RDM may be an appropriate solution to negative interest rates for many funds and therefore we strongly oppose the Commission's proposal to amend Rule 2a-7 to prohibit their use. With respect to this point, we note that the value of a shareholder's investment in a money market fund that adopted a share cancellation method would be the same as if the fund had instead chosen to adopt a floating NAV.

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[33] *See id*. at 7277.
[34] Although due to market dislocations, there have been periods of time where individual securities have briefly had a negative yield.
[35] *Id*.

As justification for prohibiting share cancellation, the SEC primarily argues that the use of share cancellation is incompatible with Rule 2a-7 and may be confusing to shareholders. With respect to the first point, the Commission indicated that it believes that it would not be appropriate under the existing provisions of Rule 2a-7 for a government or retail money fund with a negative yield to continue to seek to maintain a stable NAV. In particular, the Proposing Release states that "if negative interest rates turn a stable NAV fund's gross yield negative, the board may reasonably believe the stable share price does not fairly reflect the market-based price per share, as the fund would be unable to generate sufficient income to support a stable share price[,]" and that under such circumstances, a fund "would not be permitted to use amortized cost and/or penny-rounding accounting methods" and instead "would need to convert to a floating share price."[36] Without discussing the merits of this view that the use of share cancellation would be inconsistent with the existing provisions of Rule 2a-7, we instead simply note that potential incompatibility with existing rules should not stand as an insurmountable obstacle to worthwhile reform, as the Commission could propose to amend Rule 2a-7, or take such other action as it deems necessary to make the use of share cancellation consistent with the rule.

With respect to the second point, the SEC argues that share cancellation would not be intuitive for retail investors, as they would observe a stable NAV but a declining number of shares. Indeed, the Commission believes that investors "may be misled by such a mechanism and assume that their investment in a fund with a stable share price is holding its value while, in fact, the investment is losing value over time."[37] However, just as in our view that the current potential incompatibility with Rule 2a-7 should not be sufficient justification for prohibiting an otherwise worthwhile practice, the potential for confusion stemming from such practice should similarly not prevent its permissibility. As a threshold matter, Rule 2a-7 reflects a highly complex regulatory construct, yet the Commission has not shied away from prior amendments as a result of their complexity and the possibility that robust disclosure would be necessary to avoid confusion. For example, redemption fees and gates are very complicated; describing them and the circumstances under which they may be implemented takes up approximately a full page of disclosure in our money market fund prospectuses, and we spent a great deal of time and effort on other educational materials to help our investors understand them. RDM and other share cancellation methods are not inherently any more confusing and likewise can be explained with good, plain-English prospectus disclosure and other educational materials.

Absent the use of an RDM or similar share cancellation method, the only option available to government and retail money market funds in a negative rate environment would be to convert to a floating NAV, a solution we view as having several negative consequences. Most importantly, cash sweep platforms, which are designed to automatically "sweep" uninvested cash balances into money market funds while at the same time "sweeping" out via redemption invested cash that is needed to facilitate other purchases, are simply not designed to accommodate a floating NAV, and, according to the conversations we have had with

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[36] *Id.* at 7278.
[37] *Id*. at 7279.

various intermediaries, could not be overhauled without significant time and expense. It is our belief that most financial intermediaries that use money market funds for cash sweep would instead switch to bank deposits should such funds have to convert to a floating NAV (or confirm that intermediaries can transact at floating NAVs). In addition, conversion to a floating NAV would deprive retail money market fund investors of many of the attributes of money market funds that they find most useful and appealing, such as check writing and ATM access, the loss of which could also lead to an exodus of shareholders to bank products.[38] Finally, unlike RDM, which could easily be discontinued once fund net income becomes positive, conversion to a floating NAV is far more difficult to reverse.

With respect to the Allspring Money Market Funds, approximately one-third of our assets consist of cash sweep assets, and we believe many other large money market fund sponsors have a similar customer profile. If we are correct in our belief that forcing a government or retail money market fund to adopt a floating NAV instead of implementing share cancellation, or requiring a fund to confirm that intermediaries can transact at a floating NAV, would lead to an investor exodus from money market funds, this could mean that hundreds of billions of dollars in money market fund assets could be replaced by bank deposits, significantly weakening the money market fund industry and increasing systemic risk in the financial system. Given the important role that money market funds, particularly government money market funds, play in providing financing to the short-term funding markets, we strongly encourage the SEC to rethink its position towards share cancellation and instead take such action as it deems necessary to make the use of share cancellation compatible with Rule 2a-7.

While there are downsides to a floating NAV conversion, particularly for money market funds that are used for purposes of cash sweep, we recognize that for certain government and retail money market funds, converting to a floating NAV may be a more appropriate solution for shareholders than use of share cancellation. We believe giving money market funds, and their boards, the flexibility to determine whichever solution is in the best interests of their investors, is the soundest policy decision.

ii. Financial Intermediary Certification

In connection with its proposal to prohibit share cancellation, the Commission has also proposed to require government and retail money market funds to confirm that their financial intermediaries can continue to process shareholder purchase and redemption requests if the funds convert to a floating NAV. More specifically, the Commission proposes to require government and retail money market funds to determine that their financial intermediaries have the capacity to redeem and sell shares at prices that do not correspond to a stable NAV, and if this determination cannot be made, to prohibit such financial intermediaries from purchasing shares on behalf of their customers.[39] While we agree that planning for conversion to a floating NAV (or implementation of share cancellation) is extremely important, no matter

[38] While this factor should not be determinative, we note that in a negative rate environment, banks may not be eager to see a large infusion of deposits from former money market fund shareholders.
[39] Proposing Release at 7278.

how unlikely it may be that a money market fund should need to take such action, we think that the SEC's proposal goes a step too far and could have drastic unintended consequences for the industry. Specifically, given the significant costs associated with overhauling cash sweep platforms to accommodate a floating NAV, we believe it would be unduly burdensome to require such intermediaries to incur these costs proactively, especially when the event that would necessitate such action (i.e., negative interest rates) may never occur, or by the time it occurs, technology may have changed to the extent that present-day changes may not have ultimately been necessary. We think that adopting this proposal will lead to many such intermediaries instead choosing to stop using money market funds on their platforms (or no longer being able to, since money market funds would not be able to certify that these intermediaries could process transactions at a floating NAV), causing the same exodus from money market funds to bank deposits, and the same dire consequences, that we discussed above. We therefore suggest that rather than requiring this determination with respect to financial intermediaries, the SEC instead require government and retail money market funds to disclose that, in a negative interest rate environment, (i) the fund may need to employ a share cancellation method such as RDM or transact at a floating share price, (ii) that financial intermediaries would be responsible for processing share cancellations for their customers or for processing their purchase and redemption orders at a floating NAV, or (iii) that alternatively, financial intermediaries might choose to no longer offer fund shares and instead move their customers to alternative products such an bank deposits. In this way, shareholders would be alerted to the potential consequences of negative interest rates for their fund, and what their financial intermediary might do as a result. We note that depending on the structure of a particular money market fund and any strategies a fund's sponsor may undertake with respect to fee waivers, it may take a considerable period of time for a money market fund's share price to reflect the effects of negative interest rates. In addition, given that the Fed would almost certainly telegraph its intention to adopt a negative rate policy in advance of implementing it, we think there would be ample time for financial intermediaries to convert their systems ahead of action by the funds, or to facilitate an orderly exit from the funds should they choose to do so.

e. Conclusion

In conclusion, we strongly object to amending Rule 2a-7 to include a swing pricing requirement or to prohibit the use of share cancellation methods such as RDM. We believe that such amendments would result in negative consequences for shareholders, fund sponsors, the short-term funding markets, and the industry as a whole, while not achieving the objectives the Commission seeks and unduly hampering flexibility for money market funds and the boards that oversee them. We understand and support the Commission's need to undertake further money market reform in light of the events of March 2020. However, we believe that removing the threat of fees and gates from Rule 2a-7 while also increasing the daily and weekly liquid asset requirements for money market funds are adequate steps on their own to strengthen funds and prevent the sort of investor behavior we saw in March 2020. Indeed, had the SEC not adopted the fees and gates provisions in 2014, additional reform might not be necessary now at all. We say that not as a criticism, rather, simply as an acknowledgement that predicting investor behavior is challenging, and as a reminder that reforms adopted under the best of intentions may lead to unintended consequences. We urge restraint.

We appreciate the opportunity to provide comments on the SEC's proposed reform measures and welcome the Commission's consideration of our comments.

Very truly yours,

Andrew Owen
President
Allspring Funds Management, LLC